Senator CAMERON: Yes, I do. Mr McAuliffe, is it correct that a $20 carbon price would increase the cost of production of aluminium from $2,500 per tonne to $2,518.70 per tonne?
Mr McAuliffe: No, it is not. The reason for that is that is that that figure that is quoted there does not allow for the electricity allocation factor issue that we spoke about earlier.
Senator CAMERON: Can you take that on notice. You may want to come back to me on that.
Mr McAuliffe: You may want me to complete it, I think. It would be correct if the shielding were a true 94.5 per cent. That is possible, but it means the detail around things like the electricity factor has to be resolved. So it is possible, but for our two Victorian smelters in the way the CPRS ended up it is actually not. It is a figure that Ross Garnaut has proposed. I have looked at how it is calculated, and I think I know how it is calculated. It assumes a real 94.5. That is the sort of thing that is probably going to have to be delivered.
Senator CAMERON: If that is delivered, could you also then advise in relation to the effect on jobs.
Mr McAuliffe: Yes.

In the version of the Clean Energy Future (CEF) document released by government for consultation the issue of the Electricity Allocation Factor had not been resolved, from Alcoa's perspective. In summary, the allocation of Emissions Intensive Trade Exposed (EITE) permits, under the Jobs and Competitiveness Program (JCP) assumes carbon cost pass through in electricity will not exceed the equivalent of 1.0tCO_2/MWh. While the modelling undertaken by the government indicates this should be the case for the National Electricity Market (NEM) it is not the case for the long-term contracts Alcoa has entered into for electricity supply to the Victorian aluminium smelters from Loy Yang Power (LYP). Because aluminium smelters require very large quantities of high reliability base-load power, no lower emissions intensity alternative was available to Alcoa for contract – consequently these contracts will see carbon costs passed through to the two Victorian smelters at an intensity of around 1.25tCO_2/MWh.

Therefore, under the current proposal, EITE permits will be allocated based on 1.0tCO_2/MWh, but Alcoa will have to pay based on 1.25tCO_2/MWh and because aluminium smelters use extraordinarily large amounts of electricity, the difference is very significant. In effect, a nominal 94.5% EITE allocation is reduced to a real 76% allocation and at $23/t carbon the 0.25t$CO_2$/MWh difference will increase the cost to Alcoa by over $40M p.a.

I believe the above issue was not factored into Professor Garnaut's calculation of an additional $18.70 cost to the production of a tonne of aluminium – which the Hon Senator Cameron referred to in his question.

In answer to the Hon Senator Cameron's question in relation to jobs, it is correct to say that the combination of the above situation, adverse foreign exchange and high input costs are a significant threat to the future viability of both the Victorian aluminium smelters.

Kind regards

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